

BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
Franchise Tax Board	Wolk, et al.	SB 0014

SUBJECT

State Agency Budgets To Be Developed Using Performance-Based Budgeting Methods.

SUMMARY

This bill would require the Department of Finance (DOF) to develop a timeline and implementation plan for all state agencies to submit their budgets using performance-based budgeting in the FISCal program.

PURPOSE OF BILL

According to the author's office, the purpose of this bill is to provide accountability for state agency expenditures of state funds and provide objective measurements to evaluate their actions.

EFFECTIVE/OPERATIVE DATE

Contingent on an appropriation, this bill would be effective January 1, 2012. The requirements applicable to a state agency budget and the Governor's budget submission are to be implemented beginning with the development of the fiscal year 2013/2014 budget year and fully implemented for the 2018/2019 budget.

ANALYSIS

STATE LAW

State law requires the DOF to develop, issue, and implement consistent and adequate guidelines for state agencies to follow when submitting budgets. The guidelines must ensure the following:

- The budgets are reflective of an agency's activities;
- The budgets are reflective of the costs that are associated with their execution; and
- The budgetary presentation is designed to display expenditures based on various goals or objectives when a program budget format is used.

DOF, in cooperation with the Legislature, must develop a format for state agencies to use when developing a program budget.

Every state agency and court that receives an appropriation is required to submit a complete and detailed budget to the DOF. The budget must be in the form the DOF prescribes and must include all proposed expenditures and estimated revenues.

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Generally, every state agency reviews their expenditure plans and prepares an annual baseline budget to maintain existing service levels. In addition, they may prepare Budget Change Proposals (BCPs) to adjust service levels. The DOF analyzes the baseline budget and BCPs, estimates revenues, and prepares a balanced expenditure plan for the Governor's approval. The Governor may require state agencies, officers, or employees to furnish whatever information is deemed necessary to prepare the budget. The Governor's Budget is submitted to the Legislature by January 10 of each year. The Governor and Legislature are required to enact a budget package by June 15 of each year.

After enactment, the state agencies administer, manage change, and exercise oversight of the Budget on an ongoing basis. In addition, the Joint Legislative Budget Committee is involved in the ongoing administration of the Budget and reviews various requests for changes to the Budget.

THIS BILL

This bill would require the Franchise Tax Board to comply with the plan and timeline developed by the Department of Finance (DOF), due August 1, 2012, to formulate a performance-based budget utilizing the FISCal system, which is currently under development. The DOF will include performance-based budget information in the Governor's budget proposal.

LEGISLATIVE HISTORY

AB 1382 (Niello, 2009/2010), similar to this bill, would have required that the Governor's budget submitted to the Legislature, beginning with the 2011/2012 fiscal year, to be developed using performance-based budgeting methods for each state agency. This bill failed to pass the Assembly by the constitutional deadline.

AB 836 (Huff, 2005/2006) would have required budgets submitted by state agencies and courts to use a zero-based budget method. This bill was referred to the Assembly Committee on the Budget, but was never heard.

SB 1020 and SB 777 (Wolk, et al., 2009/2010), similar to this bill, would have required that the Governor's budget submitted to the Legislature, beginning with the 2014/2015 fiscal year, to be developed using performance-based budgeting methods for each state agency. This bill failed to pass the Senate by the constitutional deadline.

SB 985 (McClintock, 2003/2004) would have required budgets submitted by state agencies and courts to be developed using zero-based and performance-based budget methods beginning with the 2004/2005 fiscal year. This bill was held in the Senate Appropriations Committee.

OTHER STATES' INFORMATION

Research has shown that states use a combination of approaches to develop the budget, including incremental, program budgeting, zero-based or modified zero-based budgeting, and performance budgeting. The most frequently used budget approach is program budgeting with 43 states indicating that this is an approach they use. After program budgeting, incremental budgeting is the most frequent approach. Many of the approaches, such as performance budgeting, are done in conjunction with other approaches, such as program or incremental budgeting. Twenty-five states have incorporated performance-based budgeting into their budget practices.

FISCAL IMPACT

Formulating a performance-based budget would require significant changes to the existing internal and external reports. The department would be required to capture additional information and would require a format not currently used by the department. Therefore, the existing systems would need modification, or a new program or all-inclusive system may need to be acquired. In addition, resources would be needed for training staff.

The impact of this bill on the department is unknown at this time, but could be costly for the department to implement due to possible systems and reporting changes. Ultimately, the potential departmental impact for the implementation of performance-based budgeting would depend on the outcome of the proposed guidelines and procedures to be developed by the DOF and the FISCal project.

In addition, implementation of this bill could divert resources from core revenue-generating functions.

ECONOMIC IMPACT

The provisions of this bill would not impact state income tax revenues.

APPOINTMENTS

None.

SUPPORT/OPPOSITION¹

Support: California Forward (co-source)

AARP

American Association of University Women

American Council of Engineering Companies of California

American Federation of State, County and Municipal Employees

Bay Area Council

Business Council of San Joaquin County

Brocade Communications Systems, Inc.

California Alliance of Child and Family Services

California Association of Bed & Breakfast Inns

California Chamber of Commerce

California Chapter of the American Fence Association

California Church IMPACT

California Construction and Industrial Materials Association

California Fence Contractors' Association

California Grocers Association

California Hotel & Lodging Association

California Independent Oil Makers Association

California Manufactures & Technology Association

California Partnership for the San Joaquin Valley

California Retailers Association

California Senior Advocates League

California State Student Association

California Taxpayers Association

Consumer Specialty Products Association

Contra Costa Council

Engineering Contractors' Association

Flasher Barricade Association

Fresno Business Council

Greater Fresno Area Chamber of Commerce

Greenlining Institute

Half Moon Bay Coastside Chamber of Commerce

Herbalife International of America, Inc.

Huntington Beach Chamber of Commerce

Kern County Taxpayers Association

Los Angeles Area Chamber of Commerce

Marin Builders' Association

MoSys Inc.

Proofpoint Systems Inc.

San Francisco Chamber of Commerce

¹ As reported by the Assembly Committee Analysis dated August 23, 2011, at http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb_0001-0050/sb_14_cfa_20110823_104324_asm_comm.html [as of August 25, 2011].

San Gabriel Valley Economic Partnership
San Mateo County Economic Development Association
Santa Clara and San Benito Counties Building and Construction
Trades Council
Santa Cruz County Medical Society
Saving California Communities
Service Employees International Union
State Building and Construction Trades Council of California
Silicon Valley Leadership Group
TechAmerica
USANA Health Sciences, Inc.
Valley Industry and Commerce Association
WELL Network

Opposition: None on file.

VOTES

Concurrence	09/01/11	Y: 38	N: 0
Assembly Floor	08/30/11	Y: 79	N: 0
Senate Floor	05/27/11	Y: 38	N: 0

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